



REDACTED – FOR PUBLIC INSTPECTION

June 7, 2012

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Gregory Hlibok
Chief, Disability Rights Office
Bureau of Consumer and Governmental Affairs
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Structure and Practices of the Video Relay Service Program*, CG Docket No. 10-51;
*Telecommunications Relay Services and Speech-to-Speech Services for Individuals with
Hearing and Speech Disabilities*, CG Docket No. 03-123

Dear Ms. Dortch and Mr. Hlibok:

On behalf of Sorenson Communications, Inc. (“Sorenson”), undersigned counsel submits the attached presentation containing Highly Confidential Information under seal pursuant to the *Second Protective Order* issued in the above-captioned proceedings on May 31, 2012. The presentation was distributed at a meeting among representatives of Sorenson, Madison Dearborn Partners, and Commission staff that we described in an ex parte letter filed on May 10, 2012.

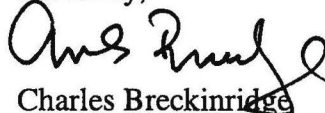
As required by paragraph 12 of the *Second Protective Order*, we submit: (a) one copy of the presentation containing Highly Confidential Information to the Secretary’s Office along with this cover letter; (b) two copies of the presentation in redacted form to the Secretary’s Office along with this cover letter; and (c) two copies of the presentation containing Highly Confidential Information to Gregory Hlibok along with this cover letter. We will also file a copy of the redacted version via ECFS. As required by paragraph 3 of the *Second Protective Order*,

Marlene H. Dortch
Gregory Hlibok
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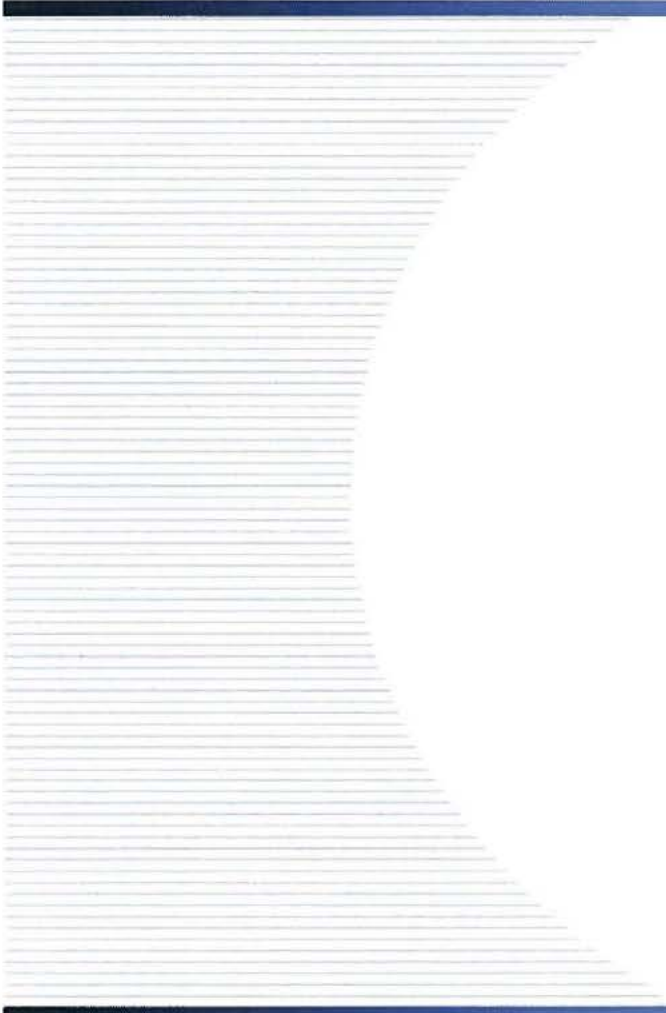
we have received written approval from Commission staff for the confidentiality designations in the filing.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles Breckinridge", written over the printed name.

Charles Breckinridge

Counsel to Sorenson Communications, Inc.



Sorenson Communications

Overview of VRS Cost Structure

May 7, 2012

Executive Summary

- We appreciate the opportunity to discuss VRS revenue methodology, cost structure and Sorenson's financial constraints with the FCC
- Sorenson is the low cost provider of VRS with a proven history of innovation, reliability and ethical conduct of our business
- Tiers are wasteful and inefficient. There is no justification for expanding tiers, and the tier differentials should be eliminated as the first step in the rate reforms
- The 18 percent flash rate cut in mid-2010 caused great uncertainty in the financial markets regarding the stability and future of the VRS program
 - Sorenson responded with a [REDACTED] layoff and tried to minimize disruption in service, but as you will see [REDACTED]
 - We are also at our limits operationally given the difficulty of staffing to our customer needs and providing the support they demand under the current structure
- As the NPRM recognized, we have actively participated with the FCC since it began its VRS review in 2010. Substantial time has passed and we must execute a refinancing of our debt by [REDACTED]
 - The uncertainty around the VRS program and Sorenson in particular have made this much more difficult and expensive
 - Sorenson and its customers will benefit greatly from clarity on the VRS revenue model for as many years as possible in order to accomplish the refinancing
- We believe a transition to a per user system is desirable
 - The per minute system has resulted in fraud by smaller players
 - The objections to the system on the basis of potential impacts to service can be mitigated or eliminated through service-level requirements that Sorenson supports
 - The industry will require a period of time to transition to such a system but once implemented it should provide the FCC with better accountability than the current system
 - A refinancing of Sorenson's debt is only possible with the long-term clarity and predictability that should result from the per user system
- We hope our presentation and discussion today will help the FCC appreciate the financial constraints faced by Sorenson and illustrate a path forward

Sorenson 2012 Financial Default Analysis

(\$ in millions, except Rate per Minute)

	Period Ending				
	Actual 12/31/2011	Actual 3/31/2012	Forecast 6/30/2012	Forecast 9/30/2012	Forecast 12/31/2012
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Comparison of FCC NPRM Stated VRS Costs and Sorenson Results

Active Users are assumed to represent [REDACTED] of Unique Users (See Exhibits)

Comparison of FCC NPRM Stated VRS Costs and Sorenson 2011 Results (Annual Cost Per User)				
Cost Category	FCC NPRM (Annualized)	Sorenson 2011A Per Unique User ⁽¹⁾	Variance (Sorenson vs. FCC)	Sorenson 2011A Per Active User ⁽¹⁾⁽²⁾
CA-Related (i.e. VRS COGS)	\$2,100	[REDACTED]	[REDACTED]	[REDACTED]
iTRS Access Technology (i.e. Outreach & Support and Engineering) ⁽³⁾	325	[REDACTED]	[REDACTED]	[REDACTED]
General & Administrative	970	[REDACTED]	[REDACTED]	[REDACTED]
Total Direct VRS Operating Costs	\$3,395	[REDACTED]	[REDACTED]	[REDACTED]
Other Actual Costs (Includes Interest & Taxes)	0	[REDACTED]	[REDACTED]	[REDACTED]
Total Cost Per Active User	\$3,395	[REDACTED]	[REDACTED]	[REDACTED]

Comparison of Implied Per Minute Costs

Cost Category	FCC ⁽⁴⁾ (Per NPRM)	Sorenson 2011A ⁽¹⁾	Variance (Sorenson vs. FCC)
CA-Related (i.e. VRS COGS)	\$2.50	[REDACTED]	[REDACTED]
iTRS Access Technology (i.e. Outreach & Support and Engineering) ⁽³⁾	0.39	[REDACTED]	[REDACTED]
General & Administrative	1.15	[REDACTED]	[REDACTED]
Total Direct VRS Operating Costs	\$4.04	[REDACTED]	[REDACTED]
Other Actual Costs (Includes Interest & Taxes)	0.00	[REDACTED]	[REDACTED]
Total Cost Per Minute	\$4.04	[REDACTED]	[REDACTED]

(1) Figures reflect 2011 GAAP results.

(2) Assumes active users represent [REDACTED] of Sorenson's unique users (as of December 2011).

(3) Sorenson Engineering Costs include depreciation to reflect capital costs related to video phones.

(4) FCC NPRM illustrative example cites 70.0 MOU. Sorenson MOU on Average Total Installed User Base was [REDACTED] n 2011.

Sorenson Projected Costs & Proposed VRS Compensation Structure⁽¹⁾

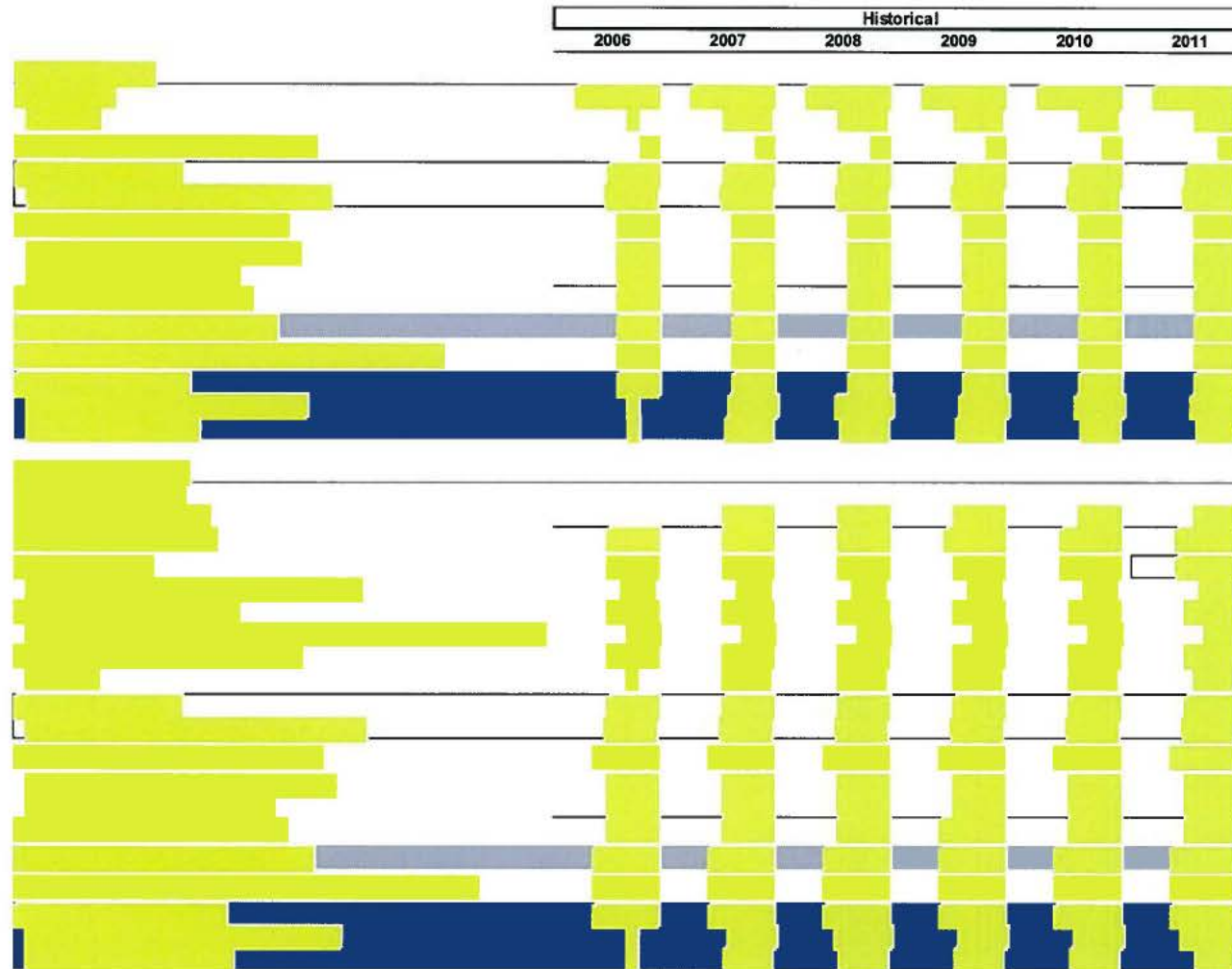
Active Users are assumed to represent [REDACTED] of Unique Users (See Exhibits)

- Phase I rate of [REDACTED] reflects the rate per active user required to approximate revenue neutrality relative to interim rates upon adoption of per user structure. The five year duration of Phase I is meant to give providers adequate time to make changes necessary to meet the constraints of the Phase II compensation level, and ultimately the Post Phase II compensation level
- Phase II rate of [REDACTED] reflects the midpoint of the Phase I and Post Phase II rates
- Post Phase II rate of [REDACTED] which reflects a reasonable profit margin on current direct operating costs per user of approximately [REDACTED] and would be subject to adjustment for inflation and productivity factors⁽²⁾

(1) Cost figures reflect MDP GAAP projections.

(2) Proposed Post Phase II compensation rate does not contemplate taxes, which are not reflected in the core operating cost figure of [REDACTED] per active user.

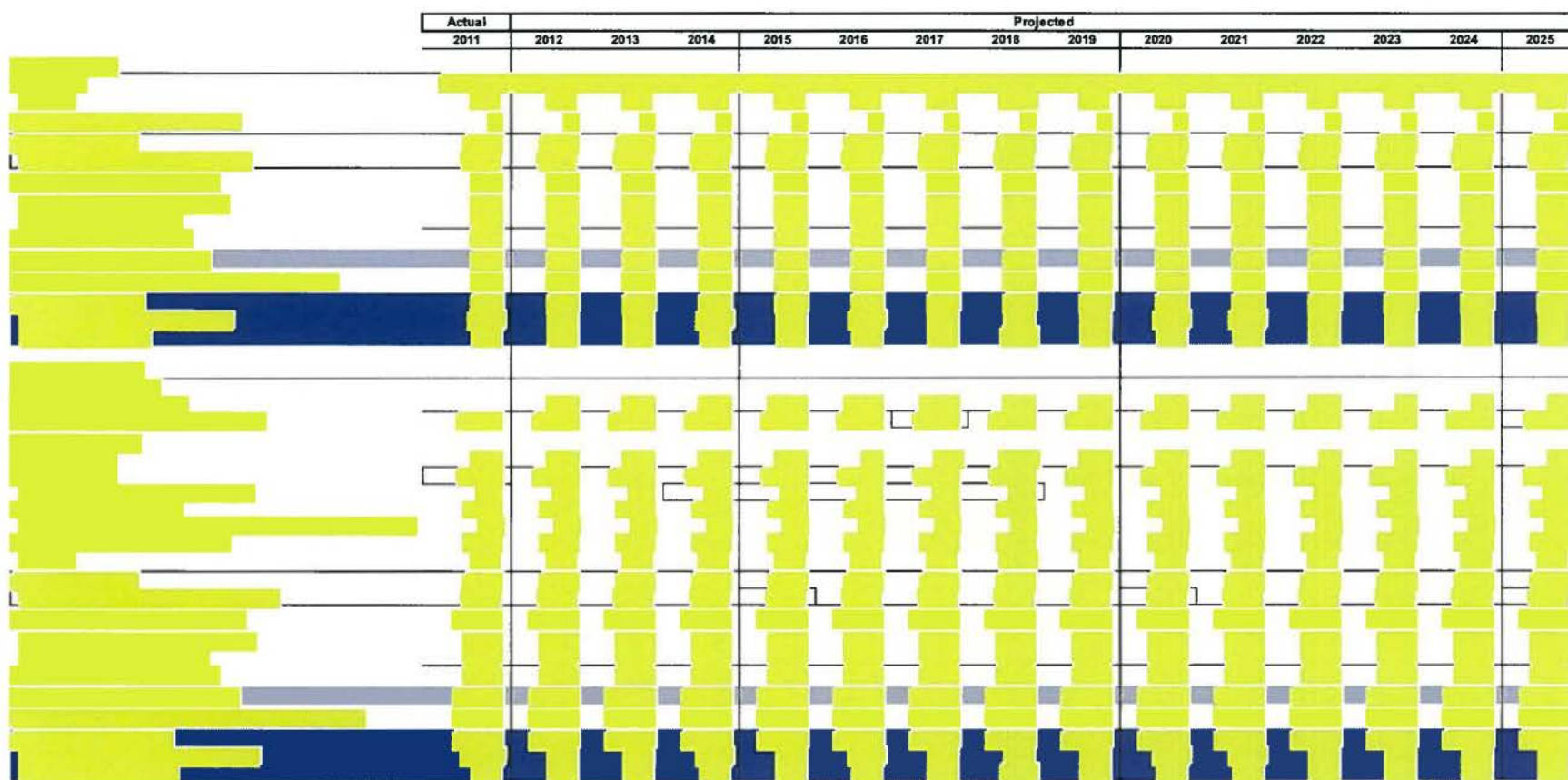
Active Users are assumed to represent 10% of Unique Users (See Exhibits)



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Active Users are assumed to represent [redacted] of Unique Users (See Exhibits)

- Assumes Per Active User Compensation of [REDACTED] begins January 1, 2015, with step downs to [REDACTED] in Jan. 2020 and [REDACTED] in Jan. 2025
- Assumes broadband subsidies also begin on January 1, 2015, which drives increase in market installs to [REDACTED] by 2017
- Assumes Sorenson's market share declines from [REDACTED] today to [REDACTED] by 2018



(2) Assumes minimum taxes of \$100 per active user. Tax figures shown reflect existing capital structure.

VRS market opportunity defined as number of households with one or more individuals who use ASL as their primary language and have access to broadband

Moreover, it remains to be seen how the broadband

subsidy would work and what, if any, effect, it would have on users.

Question to Those Surveyed:	SIPP Survey		NHIS Survey		Scheln & Delk Survey	
	Functionally deaf ⁽¹⁾		At best, can hear & understand words shouted in better ear ⁽²⁾		Indicated they could not hear or understand speech ⁽³⁾	
	%	Total	%	Total	%	Total
Estimated Number of deaf in U.S. @ time of survey		993,499		1,152,000		1,767,046
Growth in deaf per year (Overall U.S. Pop. Growth Rate between 1990 - 2011)	1.1%		1.1%		1.1%	
Number of years since survey to 2011	10		20		39	
Projected 2011 Deaf Population		1,103,249		1,420,577		2,659,020
[Redacted]					50.7%	
[Redacted]						
[Redacted]						
[Redacted]						
[Redacted]						
[Redacted]						
[Redacted] (18)						
[Redacted] (10)						
[Redacted]						
[Redacted] (18)						
[Redacted] (18)						

- (1) Survey of Income and Program Participation (SIPP), Panel 2001, Wave 5 public use file. Functionally Deaf is defined as people who answered affirmatively to either "Unable to hear a normal conversation, even with hearing aid" and "Person is deaf".
 (2) Vital and Health Statistics, "Prevalence and Characteristics of Person with Hearing Trouble: United States, 1990-91". Published March 1994. Pg. 8.
 (3) "The Deaf Population of the United States", Jerome D. Schein and Marcus T. Delk Jr. (1974) pg. 16.